

# **2003 Transportation Summit Planning Team**

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Experts Comment on

## **FUNDING**

# FUNDIING

October 27, 2003

8:30 a.m. to 4:30 p.m.

Secondary Center, Lake Michigan Conference Room, Lansing, MI

## AGENDA

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### WELCOME

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*Facilitator:* Leon Hank, MDOT Chief Administrative Officer

#### *Discussion Moderators:*

Leon Hank, MDOT Chief Administrative Officer  
Jim Steele, Division Administrator, Federal Highway Association  
Charlene Crowell, Policy Specialist, Michigan Land Use Institute  
Anthony Milo, Executive Director, Michigan Road Builders Association  
John Niemela, Executive Director, County Road Association of Michigan  
Myron Frierson, Chief Administrative Officer, Michigan Department of Transportation

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### EXPERTS SPEAKING ON THE ISSUES

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<b>Transportation Funding</b>	Myron Frierson, Director, Bureau of Finance & Administration, Michigan Department of Transportation
<b>National Near-Term View</b>	Jim Kolb, Director of Congressional Relations, American Road & Transportation Builders Association (ARTBA)
<b>Local Viewpoint</b>	Brent O. Bair, Managing Director, Road Commission for Oakland County
<b>Transit &amp; Multi Modal Funding Perspective</b>	Kelly C. Thayer, Transportation Project Manager, Michigan Land Use Institute
<b>Political Realities</b>	Craig Theil, Fiscal Analyst, Michigan Senate Fiscal Agency William E. Hamilton, Senior Fiscal Analyst, Michigan House Fiscal Agency
<b>A Future Perspective</b>	Don Bullock, Executive Coordination Unit Manager, Federal Highways Administration
<b>General Revenue Enhancement Sources</b>	Eric Luper, Senior Research Associate, Citizens Research Council

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### PLANNING ITEMS

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Planning Team's Comments on the Issues

Drafting the Issues, Goals and Action Plans

## **Federal and State Transportation Funding: A Brief Overview**

Expert Speaker: **Myron Frierson, Director, Bureau of Finance and Administration**  
**Michigan Department of Transportation**

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### **Federal and State Transportation Funding: A brief overview**

- I will cover funding from the federal and state level for the three major modes of transportation: highways, transit and aeronautics.
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### **Federal and State Funding for Highways in Michigan**

- **In 2003 - \$2.9 Billion available for Roads**
  - **70% State and 30% Federal**
  - State – \$2,046,672,800 ( MTF - \$ 2,011,866,000 and Miscellaneous STF - \$35,006,800)
  - Federal - \$ 888,503,735
  - Total - \$ 2,935,176,535
  - Source: Hayes Report dated 9/29/2003; handout has a lot of info about funding.
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### **Highway Federal Aid**

- **Not cash! Not a grant, or appropriation, either.**
  - **Authorization – apportionment – obligation limit – reimbursement**
  - **Usable only on federal-aid roads (except for Bridge program)**
  - **Michigan law requires most federal aid be split 75/25 percent between state & local units.**
  - Federal is not free or unrestricted money, federal funds are directed to support various program priorities determined at the national level.
  - Typically in the past this has been a 6-year authorization – hope it will be a 6-year reauthorization in the future.
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### **Six “Core” Programs**

- **Account for almost all federal highway aid**
  - **Each has its own formula dividing aid among the states**
  - **Sum of formulas determines a state’s return**
  - **Most aid is 80% reimbursement**
  - **Rate of Return**
    - Highways 88%
    - Transit 43%
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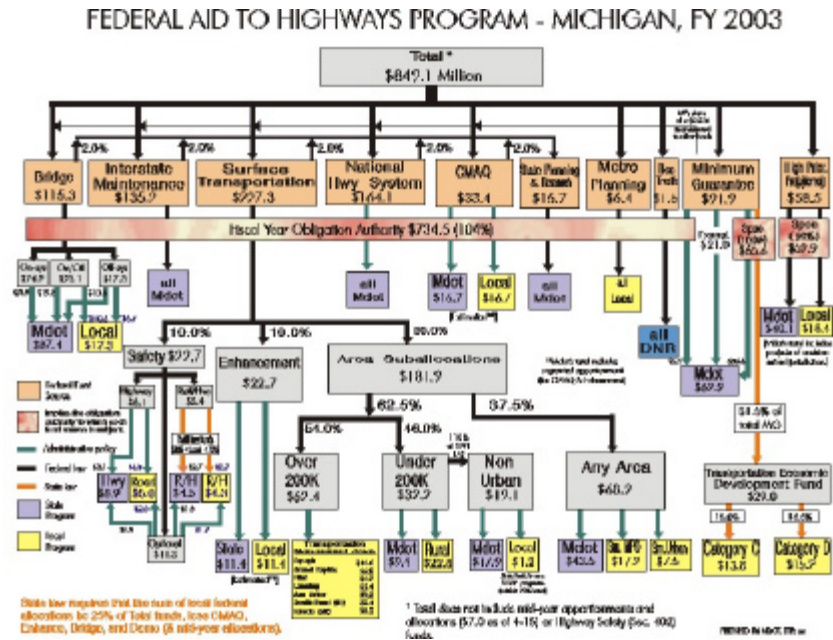
- **Surface Transportation Program (STP)**
  - **\$227.3 million**
  - Based on lane miles, vehicle-miles traveled (VMT), Highway Account contributions
  - Most flexible program
  - 10% for safety
  - 10% for Transportation Enhancements
  - Source of flexible funds for transit
- **National Highway System (NHS)**
  - **\$164.1 million**
  - For use on Interstate, rural principal arterials, urban freeways & expressways, or facilities on the Department of Defense Strategic Highway Network
  - Based on non-Interstate arterial lane miles, VMT, Diesel fuel usage, and population
- **Interstate Maintenance**
  - **\$135.2 million**
  - Restore and resurface Interstate freeways, without adding capacity
  - Based on Interstate route miles, Interstate VMT, & commercial vehicle contributions (Diesel fuel and truck tire taxes)
- **Bridge Replacement and Rehabilitation**
  - **\$115.3 million**
  - Apportioned on ratio of estimated cost to repair deficient bridges in each state to total costs nationwide
  - 15 percent set aside for use on non-system bridges
- **Congestion Mitigation and Air Quality Improvement Program (CMAQ) -- \$33.4 million**
  - Usable for both highways and transit
  - For projects to improve air quality in non-attainment areas for ozone and carbon monoxide
  - Detroit and Muskegon
  - Awarded on a project-by-project basis by states and MPOs, with FTA/FHWA approval
  - Carpool lots, signal synchronization
  - Purchase of clean-fuel buses
  - Rideshare offices and vanpool programs
- **Minimum Guarantee- \$91.9 million**
  - State's share of apportionments and high-priority projects will be not less than 90.5% of a State's share of contributions to the Highway Account:  

$$\frac{\text{State Apportionments}}{\text{Total U.S. Apportionments}} \geq 90.5\% \times \frac{\text{State's Contributions}}{\text{Total U.S. Contributions}}$$
  - Annual Discretionary programs not included
  - Subject to ethanol losses

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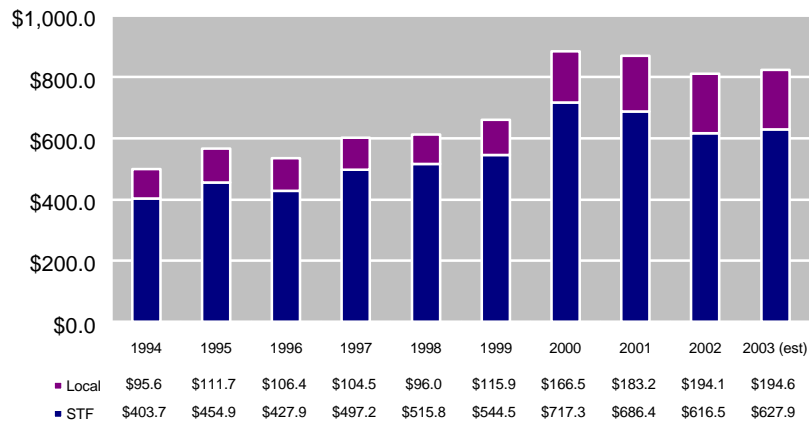
- Other Programs**
- **State Planning and Research**
    - 2% takedown from each core program
  - **Metro Planning**
  - **Recreational Trails**
  - **High Priority Projects**
  - **Discretionary Programs**
    - IM, Bridge, Border/Corridor, ITS, TCSP, etc.
    - Michigan would do better if these were formulas

## Federal Aid to Highways Program – Michigan, FY 2003



- Current Estimate is \$888 million from Hayes Report
  - Simplified version of federal funding mix
  - Shows where the money starts and how it flows through the various programs

## 10 Year Federal Revenue Trend – STF (In millions)



- STF includes Bond Funds and Trust Funds
  - Substantial increase of revenue over the last 10 years
  - Since 1994 about 2/3

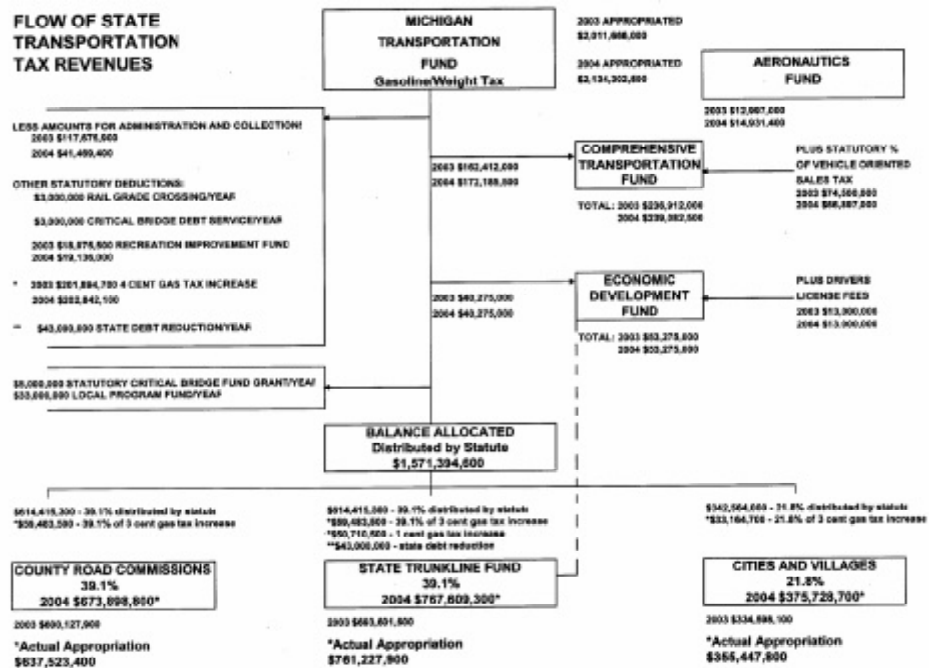
## Michigan Transportation Fund

- **Receives motor-fuel tax and vehicle-registration revenue**
- **Constitutionally restricted to highways and transit**
- **After deducting cost of collections: FY 2003 approximately \$105 million/year for Departments of State and Treasury**
- In FY 04 – Grant to State & Treasury of \$28 million
  - \$ revenue going to TACF: net benefit to MTF of \$42 million
- Michigan based funding primarily on user fees.
- 2% per gasoline tax
- 5% per diesel
- In 1905 Michigan assessed a \$2 license plate tax.
- In 1924 the first gas tax was levied at 2 cents per gallon.
- In 1947 diesel fuel tax was levied at 5 cents per gallon.

## State Transportation Funding

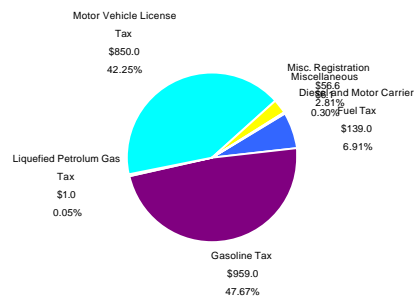
- **Act 51 of 1951, as amended**
- Act 51 enabling legislation for the department
- Created the MI transportation fund – MTF
- **MTF divided primarily four ways –**
  - **State Trunkline Fund**
  - **Comprehensive Transportation Fund**
  - **County road commissions**
  - **Cities and villages**
- **“The Formula” is not a single 4-way split**

## Michigan Transportation Fund Formula



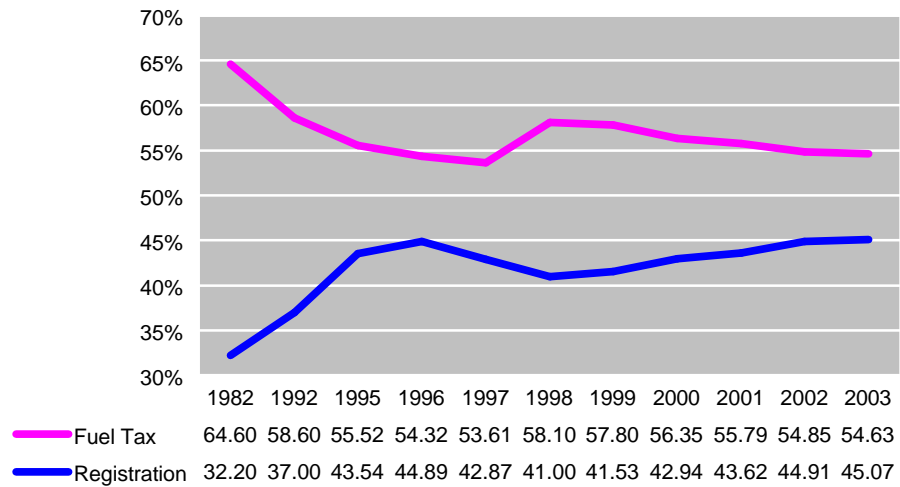
- Revenues are constitutionally restricted. However, after collections there are other program deductions enacted that direct funding for more specific purposes. The two sources of non-constitutionally restricted revenues: sales taxes for CTF and Driver Improvement Fees for EDF.

## FY 2004 MTF Revenue Sources (In millions)



- The primary sources of state revenue for transportation are registration fees and motor fuel taxes. With motor fuel taxes up, this is 54% of the total revenue of the fund.

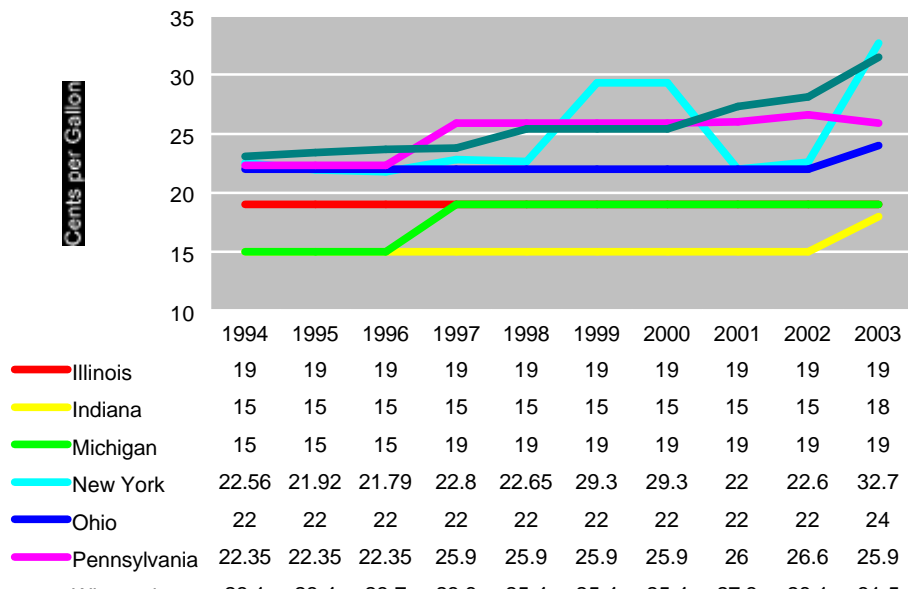
## Mix of Fuel Taxes and Registration Fees in MTF



- **Note: Years included are 1982, 1992, and 1995 through 2003**
- Year when these equal will be 2011-- \$ of increase from 1999 to 2003
- Reliance on motor fuel taxes has the largest source of revenue. This is lessening due to the slow growth of motor revenues vs. the growth in registration fee revenues. Motor fuel taxes, since they are based on consumption, are impacted by fuel economy increase and inflation. For example, fuel economy in 2003 is 28 miles per gallon vs. 14 miles per gallon in 1974. Registration fees based in part on the value of vehicles have some hedge against inflation. For FY 2003 motor fuel taxes have increased 1.2% and registration fees have increased 2.7%. Estimate for FY 2004 for fuel is 1.4% and registration is 2.4%.
- The year when these equal is 2011 assuming the five year period 1999-2003 represents the average change into the future.
- 1983 switched from weight to value.

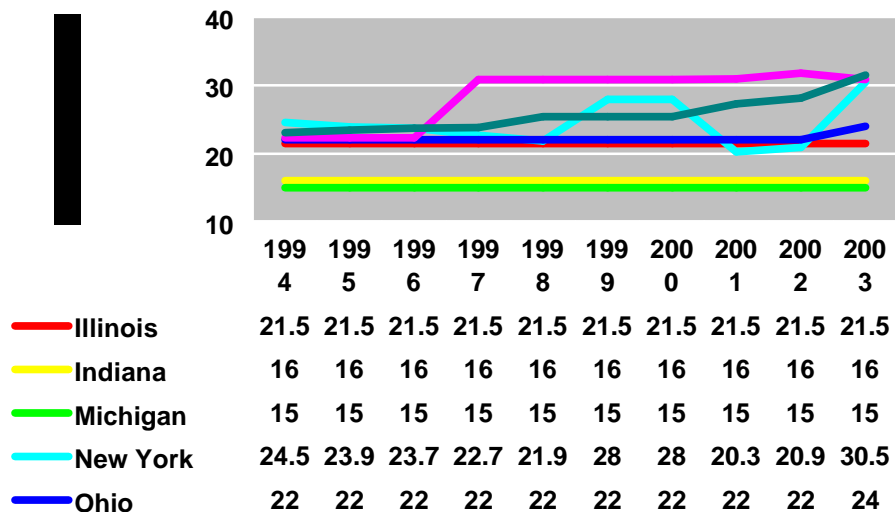


## Ten Year Comparison of Gasoline Tax For Michigan and Surrounding States



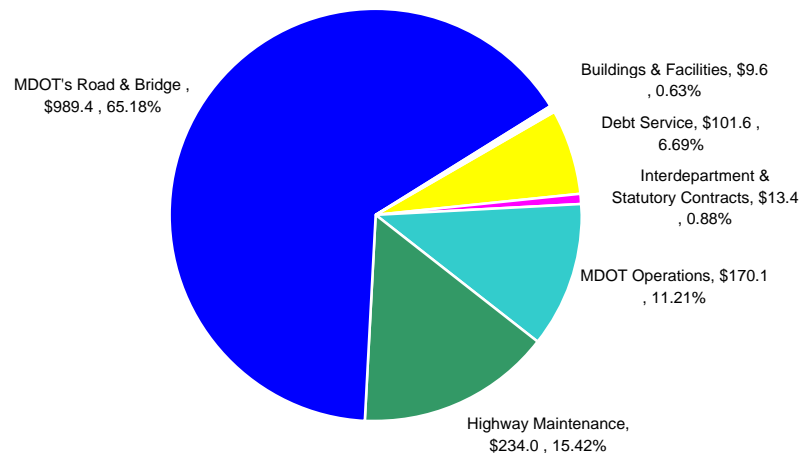
- Michigan's Gasoline Tax is 19¢ per gallon and ranks 32 of 51
- Since 1992, 28 states have raised gas taxes; only three have raised them to keep pace with inflation. According to a recent study average gas tax declined by about 14% in the last decade.
- 1 cent equals about \$50 million.

## Ten Year Comparison of Diesel Tax For Michigan and Surrounding States



- Michigan's Diesel Tax is 15¢ per gallon and ranks 46 of 51
- 1 cent equals about \$9.5 million.

**FY 2004 State  
Trunkline Fund  
Appropriated  
Expenditures  
Excluding Local  
Programs (In  
millions)**



- **Total Appropriation \$1,518.1 million**
- Source: FY 2004 Appropriation Bill and Proposed Capital Outlay Appropriation Bill
- The vast majority of the MDOT's budget is direct to road maintenance and improvement.

**Federal and  
State Transit  
Funding**

**Federal Transit  
Funding**

- **\$100 million/yr to Michigan under five "Core" programs**
- Focus on the five major Federal Transit Administration programs that support public transit services
- **Both formula and discretionary programs**
- Formula programs;- amounts are determined by legislative formula
- **Grants awarded to State DOTs and local transit agencies directly**
- Discretionary programs are allocated by Congressional earmark and/or competitive grants
- About 75% of Michigan's federal funding is distributed directly to the large urban transit agencies
- Most programs are referred to by their section number under Title 49, Chapter 53 (Mass Transportation) of the United States Code (the Federal Transit Act as it was codified in 1994)

**Five "Core"  
Programs**

- **5307 Urbanized Area Formula Grants**
  - **\$66.8 million to 19 eligible Michigan agencies**
  - Formula based on population, density, other
  - Large Urbanized Areas (over 200,000)

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- ? used for buses, facilities, equipment, planning, preventive maintenance
  - Small Urbanized Areas (under 200,000)
    - ? used for buses, operating, planning
  - Maximum Federal Share: 80% for capital grants; up to 50% for Operating
  - The largest program for Michigan, still only \$66.8 million out of a total of \$3.4 billion nationwide
  - Other formula factors include bus revenue vehicle miles and bus passenger miles
  - Grants awarded directly to transit agencies: state informs FTA of allocation amount per agency
  - Operating-no more than 50% of net Deficit=Expenditures minus fare box
- **5309 Capital Investment Grants**
  - Discretionary, allocated largely through Congressional earmarks
  - Used for capital
  - Grants awarded to transit agencies and/or the State
  - Maximum Federal Share: 80%
  - Three Programs:
    - 40% for New Starts
    - 40% for Fixed Guideway Modernization
    - 20% for Bus Discretionary
      - 40% for New Starts
  - Michigan received none of these funds in 2003
  - Allocated at discretion of FTA
  - although Congress fully earmarks all available funding
  - For New or extended fixed guideway systems
    - 40% for Fixed Guideway Modernization
  - Michigan received \$0.6 m in 2003
  - Allocated by formula to existing systems
  - Detroit People Mover is Michigan's only system
    - Bus Discretionary
  - \$24.3 million in 2003 to 30 eligible agencies
  - Allocated by Congressional earmark
  - Used for buses, bus equipment, facilities
  - Most often awarded directly to transit agencies
  - MDOT allocates some funds to other eligible transit agencies
  - Michigan received \$24.3 m in 2003 out of \$650.9 m
  - Bus discretionary funding mostly awarded directly to individual transit agencies
- Those funds that MDOT does receive, it allocates to eligible public transit agencies that did not get their own congressional earmark
- **5310 Elderly & Persons with Disabilities Grants**

- **\$2.9 million in 2003 to 30 eligible agencies**
- Formula based on the ratio of Michigan elderly and disabled with elderly and disabled population nationwide
- Used for capital investment
- State administrative costs also eligible, but Michigan does not use these funds for that purpose
- Grant awarded to State
- MDOT allocates funds to private non-profit organizations and eligible public transportation providers based on capital investment need
- Maximum Federal Share - 80%
- **5311 Non-Urbanized Area Formula Grants**
  - **\$8.9 m in 2003 for 72 Michigan agencies**
  - Formula based on ratio of Michigan non-urban population to nationwide non-urban population
  - Used for Capital and Operating
  - Administrative costs also eligible, but Michigan does not use them for this
  - 15% set aside for rural intercity bus service
  - Grant received by State
  - MDOT allocates funds to areas under 50,000
  - Including funds for intercity bus service
  - Maximum Federal Share-80% for Capital and up to 50% for Operating
  - Michigan received \$8.9 million out of a total of \$238.9 million in 2003
    - ? Provided funding to 72 eligible agencies.
    - ? Formula based on ratio equal to the total population in the State's non urbanized areas divided by the total population in non urbanized areas in all states.
    - ? 15% of allocation must go to rural intercity bus service unless Governor certifies the service is adequate (Section 5311f)
    - ? Maximum for operating-up to 50% of net deficit- expenditures minus fare box
- **Job Access Reverse Commute Grants (Section 3037)**
- Job Access Reverse Commute Grants (Section 3037)
  - Discretionary Grants earmarked by Congress
  - Competitive grants awarded by FTA
  - Used for Capital and Operating
  - to enhance transportation for low income individuals to get to work, training and child care, even in the suburbs
  - Grants awarded to transit agencies and/or State
  - MDOT allocates funds competitively
- **\$1.9 million in 2003 to 2 eligible agencies**
- Discretionary Program

- Grants determined by Congressional earmarks and competitive grants awarded by FTA
- Eligible Uses: Capital and Operating
  - Designed to enhance transportation opportunities for low income individuals to get to work, training and child care, including suburban work site locations
- Grants awarded to individual transit agencies and/or the State
  - MDOT has received funding through FTA competitive process (not earmark). MDOT then allocates funding it receives to eligible agencies based on a competitive process
  - Michigan's FY2003 allocation (by earmark) was \$1.9 million out of a total of \$150 million
    - ? Provided funding to 2 eligible agencies; Flint \$1 Million and Grand Rapids \$900,000

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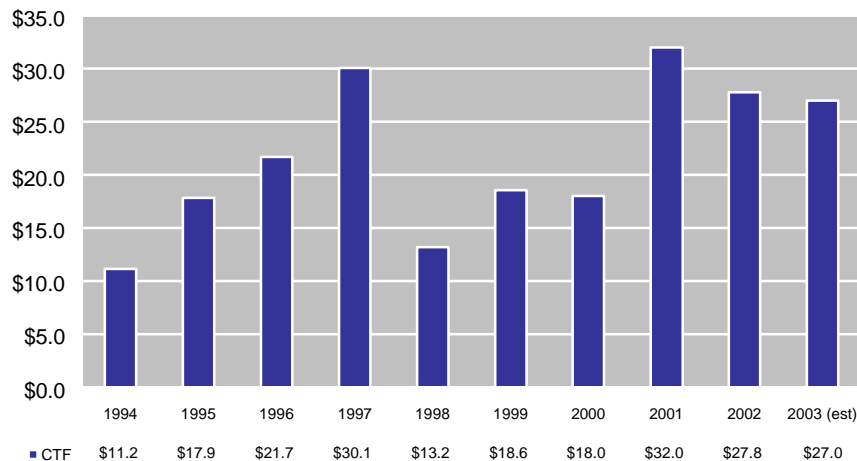
#### **Highlights of State Transit Funding**

- **Comprehensive Transportation Fund (CTF), as created by Act 51, plus CTF bond revenues**
- **\$160 m/yr for part of annual operating costs of urban and rural transit**
- **\$30 m/yr to match federal capital grants**
- **\$3 m/yr to match Job Access Reverse Commute**
- **CTF also used to match planning, research and technical assistance grants**
- Comprehensive Transportation Fund (CTF) – supported by a portion of the state gas tax and a portion of the sales tax on automobile related items
- Annual CTF appropriations guided by State Law – Act 51 of 1951
- CTF bond revenues another significant source of State transit funding
- About \$160 million/year in CTF appropriations reimburse a portion of the annual operating costs of urban and rural transit agencies
- (aka State Formula Assistance/State Operating Assistance)
- About \$30 million/year in appropriations and bond revenues allocated to match federal capital grants
- CTF currently provides all of the 20% non-federal match required for capital grants awarded to transit agencies and other service providers under Sections 5307, 5309, 5310, 5311, CMAQ and flexed funds
- About \$3 million/year in recent years to match all of the 50% match required for Job Access Reverse Commute Grants to transit agencies
- CTF funds also appropriated to meet all or portions of the non-federal match requirements for various planning, research and technical assistance grants

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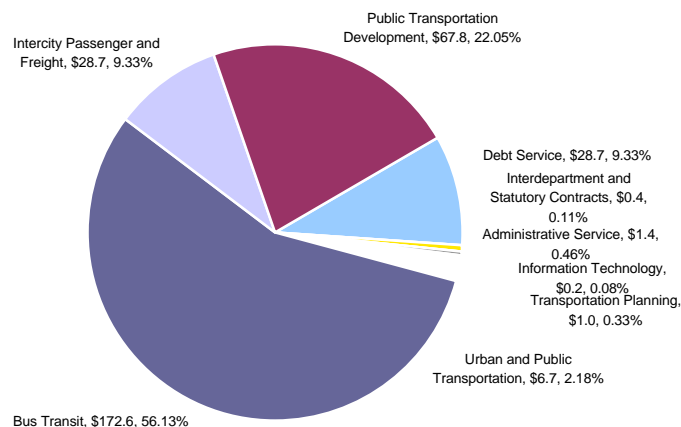
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## 10 Year Federal Revenue Trend – CTF (In millions)



- Source: MDOT CAFR
- Transit has increased also in the last authorization, how the department is seeking a return better than 43% return we currently are receiving.
- The Senate bill would increase funding to \$7.3 billion up \$100 million.

## FY 2004 Comprehensive Transportation Fund Appropriated Expenditures (In millions)



- **Total Appropriations \$ 307.5 million**
- Assistance to local transit authorities is the largest spending.
- Source: FY 2004 Appropriation Bill